



City Council Report

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Discussion Item 41

Title: Affordable Housing Finance Resources [Oral Report]

Location: Citywide

Recommendation: Receive and file.

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Attachments:

1-Description/Analysis

2-SHRA-Administered Affordable Housing Resources

3-State Affordable Housing Resources

Description/Analysis

Issue Detail: The Sacramento Housing and Redevelopment Agency (SHRA) serves as the local housing finance agency for the City and County of Sacramento. As such, SHRA provides assistance to developers for the construction and preservation of affordable housing offering gap financing and the issuance of tax-exempt bonds for the development or acquisition/rehabilitation of multifamily rental housing in the City of Sacramento and unincorporated areas of the County of Sacramento. Under certain cooperation agreements, SHRA may also finance affordable housing developments in other cities within the County. All housing financed by SHRA carries affordability restrictions on some or all of the units.

The joint-powers model that combines the functions of the City and County Housing Authorities and the local housing finance agency allows for significant economies of scale that increases local capacity for complex underwriting and long-term servicing and monitoring of the affordable housing inventory – both for multifamily and homeownership programs.

SHRA manages the federal HOME Investment Partnerships (HOME) Program, the City's Housing Trust Fund, and housing-related assets from the former Redevelopment Agency (Attachment 2). SHRA also receives and administers repayments from existing loans expanding the resources available for affordable housing in our jurisdictions. In addition, SHRA works collaboratively with the County to administer and apply for No Place Like Home funding from the State that supports the development and operations of permanent supportive housing.

Recent revenue generated by the State's cap and trade program and legislation passed and approved by voters in 2018 have increased the amount of potential resources available to the City of Sacramento for the purpose of affordable housing development (Attachment 3).

The purpose of this workshop is to review the main sources of affordable housing financing for the City of Sacramento with an emphasis on new resources available and anticipated from State funding.

Policy Considerations: Not applicable.

Economic Impacts: None.

Environmental Considerations: Not applicable.

Sustainability: Not applicable.

Commission/Committee Action: Staff presented this item to the Sacramento Housing and Redevelopment Commission on March 20, 2019 as an informational item.

Rationale for Recommendation: Not applicable.

Financial Considerations: Not applicable.

Local Business Enterprise (LBE): Not applicable.

SHRA-Administered Affordable Housing Resources

Mixed-Income Housing Ordinance (MIHO) On September 1, 2015, the City Council (Council) repealed Chapter 17.712 of the City Code, known as the Mixed Income Housing Ordinance (No. 2000-039), and adopted a revised citywide Mixed Income Housing Ordinance (No. 2015-0029) effective November 1, 2015 (Ordinance). As part of this revision, the City contracted with a consultant to perform a residential nexus analysis which demonstrates the relationship between the development of market-rate residential units and the need for additional workforce housing. The revised Ordinance requires an affordable housing impact fee for all new housing units and large subdivisions to provide housing for a variety of incomes and family types. The fee-generated revenue is placed in a citywide Housing Trust Fund and used to develop affordable housing units with the goal of increasing the supply available for low-income households earning up to 80 percent of the area median income.

The City has collected fees generated from MIHO for three years with an overall, average annual collection of \$765,000. The City collected approximately \$627,000 in 2018. Fee revenue varies with the housing construction market.

Housing Trust Fund – The City Housing Trust Fund (HTF) ordinance authorizes the collection of fees on non-residential construction to fund the development of low and very low-income housing. The HTF ordinance was adopted in 1989 to raise local funds for affordable housing near employment centers. Fees imposed on non-residential development generate revenue based on an economic nexus analysis which determined that the construction of commercial projects such as offices, business parks, hotels, warehouses, and shopping centers played a major role in attracting new very low- and low-income workers to Sacramento. The fee generated revenue is therefore used to develop affordable housing units with the goal of increasing the supply available for lower-income workers.

The amount of fees generated depends upon the market for new commercial construction. The average level of fees collected from 2005 through 2018 was \$1.2 million with the lowest total of \$130,000 in 2012 and the highest in 2006 at \$2.9 million. The City collected \$1.9 million in 2018.

HOME Investment Partnerships Program – The federal HOME Investment Partnerships Program (HOME) provides grants to fund a wide range of activities including construction, acquisition, and/or rehabilitation of affordable housing. SHRA administers these funds on the City's behalf as an entitlement jurisdiction. These funds are received annually and are subject to federal appropriation levels. At least 20 percent of HOME-assisted units in each project must be reserved for households with incomes below 50 percent of Area Median Income (AMI) and the remaining reserved for households with incomes below 65 percent of AMI. In 2018, the amount of the grant was \$2.6 million.

Loan Proceeds, Interest, and Repayments – SHRA structures funding in the form of loans. Multifamily housing loans are often paid back as part of a sale or refinancing. SHRA receives these repayments and, along with regular interest and loan payments, is able to recirculate those funds to create and preserve more affordable housing.

State of California Affordable Housing Resources

SB 2 – Building Jobs and Homes Act

In 2017, Senate Bill 2 created the first permanent source of affordable housing in the State of California. Revenue is generated through recording fees on real estate transactions and will, therefore, vary from year to year depending upon activity. During the first year of the program, all funds were used to support homelessness-related activities and for planning and technical assistance. Year 2 (2019) and onward, the majority of funding is used for the following purposes:

To Be Locally Administered – Entitlement

Local Housing Allocation

Affordable housing funds flow to local governments using the same formula as the federal Community Block Grant Program. Actual allocation will depend upon the revenue generated by a new recording fee on real estate documents. Resources will flow through HCD to entitlement jurisdictions. Eligible uses are broad and include rental and ownership housing activities, and homeless services. Jurisdictions are required to integrate a homeownership component in their plans.

The State Department of Housing and Community Development (HCD) estimates the City's annual entitlement to be \$1.9 million.

California Housing Finance Agency (CalHFA) Administered - Competitive

Missing Middle

The California Housing Finance Agency (CalHFA) receives 15% of SB 2-generated funds to operate a mixed-income multifamily loan program that allows for income restrictions of 30 percent to 120 percent of area median income. The annual statewide allocation is expected to be \$30 - \$45 million and eligible sponsors (developers) include for-profit, non-profit, and public agencies.

The Governor's proposed budget would increase funding for this program with one-time General Fund proceeds in the amount of \$500 million.

Proposition 1/SB 3 – Veterans and Affordable Housing Bond

Voters approved a \$4 billion general obligation bond in November, 2018 the proceeds of which will be used to fund existing, statewide housing programs. Including:

HCD Administered - Competitive

- Multifamily Housing Program - \$1.5 billion. Provides soft-second loans (gap financing) for new construction and rehabilitation of affordable rental housing. Developers apply.
- Infill Infrastructure Grant Financing - \$300 million. Provides gap funding for infrastructure improvements required for residential and mixed-use infill development. Developers apply.
- Local Housing Trust Match Grant Program - \$300 million. Affordable Housing Innovation Fund to help finance local housing trust funds dedicated to the creation or preservation of affordable housing. Applicants are cities and counties with Housing Elements that are in compliance. SHRA has successfully applied for and received these funds on behalf of the County in the past.
- Transit-Oriented Development Program - \$150 million. Eligible applicants include cities, counties, transit agencies and developers. Funds are to be used to facilitate the development of higher density uses within close proximity to transit stations.
- CalHome - \$300 million. Funding to provide homeownership opportunities for low and very-low income homebuyers. Grants are awarded to public agencies and non-profits who offer downpayment assistance and/or home rehabilitation assistance. SHRA has been successful at applying for and receiving these funds when available in the past.

CalHFA Administered - Direct to Homebuyer

- CalHFA Home Purchase Assistance - \$150 million. CalHFA provides loans directly to eligible first-time homebuyers.

California Department of Veterans Affairs (Cal-Vet) Administered - Direct to Buyer

- Farm and Home Loan Program - \$1 billion. Provides homeownership financing for qualified veterans. Funds may also be used to finance farm purchases.

Greenhouse Gas Reduction Fund (Cap and Trade)

Proceeds from the State's Cap-and-Trade program generated through regular auctions of carbon allowances are channeled into State loan and grant programs designed to reduce greenhouse gas emissions. The Strategic Growth Council (SGC) coordinates two programs with affordable housing components:

SGC Administered - Competitive

Transformative Climate Communities

The Transformative Climate Communities (TCC) program funds development and infrastructure projects designed achieve major environmental, health, and economic benefits in disadvantaged communities. This program is only available to communities within certain CalEnviroScreen zones.

Only four awards have been made since the program's inception. SHRA received an award in 2018 in support of the Twin Rivers Transit-Oriented Development project. The majority of those funds will be used to install a new light rail station across the street from the former Twin Rivers public housing community.

Affordable Housing and Sustainable Communities (AHSC)

The AHSC program is more closely aligned to the production of new housing than the TCC program. AHSC is a competitive program that relies on reductions in greenhouse gas emissions partially through the production of dense housing near transit. This fundamental purpose of the program has made obtaining AHSC funding challenging for the Sacramento region given the lack of density in contrast to regions like the Bay Area and Los Angeles basin. The source of the program resources – Cap-and-Trade funds – necessitates the integration of housing with transit and projects must demonstrate sufficient greenhouse gas reductions.

AHSC has had three funding rounds with statewide competitive funds amounts ranging from \$120 million to \$320 million. The current funding round will award up to \$395 million.

Mental Health Services Act Funds

Voters approved Proposition 63 in 2004 creating the Mental Health Services Act (MHSA) to provide increased funding, personnel, and other resources to support county mental health programs.

Revenues are generated by a one percent income tax on personal income in excess of one million dollars. In 2018, voters approved the bonding of this stream of revenue for the purpose of developing permanent supportive housing for people experiencing homelessness who are also mentally ill.

HCD Administered - Competitive and Entitlement

No Place Like Home

Up to \$2 billion in bond proceeds supported by the resources generated by the State's Mental Health Services Act will be made available to develop permanent supportive housing for persons in need of mental health services and experiencing homelessness. During the first round of funding, administered by HCD, currently underway, there is a non-competitive formula allocation to counties (\$5.1 million for Sacramento) and competitive funding available the amount of which is not determined but will exceed \$200 million. The County has partnered with two non-profit housing providers – Mercy Housing and Jamboree Housing – and is requesting approximately \$13 million in competitive funds to support the new construction of 156 permanent supportive housing units. The County and SHRA will issue a second "Request to Partner" in April, 2019 to compete for additional funding for additional housing projects.

CalHFA Administered - Competitive

Special Needs Housing Program

CalHFA operates the Local Government Special Needs Housing Program (SNHP) that allows local governments to use Mental Health Services Act (MHSA) funds with other local funds to provide financing for the development of permanent supportive rental housing that includes units restricted for occupancy by individuals with serious mental illness (and their families) who are homeless or at risk of homelessness.

Program	Funding Amount	Administrative Entity	Funds Available current/next round	Applicants	Competitive?
Building Jobs and Homes Act (SB2)					
Local Housing Allocation	est. \$138 million City est. \$1.9 million	HCD	Early 2020	Local Governments	No
Missing Middle (Mixed-Income Multifamily)	\$40 million	CalHFA	Mid-2019	Developers	Yes
Veterans and Affordable Housing Bond					
Multifamily Housing Program	\$1.5 billion	HCD	Sep-19	Developers	Yes
Infill Infrastructure Grant	\$300 million	HCD	Early 2020	Developers	Yes
Local Housing Trust Fund Match	\$300 million	HCD		Local Governments	Yes
Transit-Oriented Development Program	\$150 million	HCD	Early 2020	Public Agencies, Developers, Transit Authorities	Yes
CalHome (Homebuyer Assistance)	\$300 million	HCD	Dec-19	Public Agencies, Not-profits	Yes
Home Purchase Assistance	\$150 million	CalHFA		Eligible Homebuyers	No
Farm and Home Loan Program	\$1 billion	Cal-Vet		Eligible Borrowers	No
Greenhouse Gas Reduction Fund					
Transformative Climate Communities	\$46 million	SGC	Dec-18	Public Agencies, Not-profits	Yes
Affordable Housing and Sustainable Communities	\$395 million	SGC	Jun-19	Public Agencies, Developers, Transit Authorities	Yes
Mental Health Services Act					
No Place Like Home	approx. \$2 billion	HCD	May-19	Counties	Both
Special Needs Housing Program	\$9 million	CalHFA		Sacramento County	No